

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
INDIANA MICHIGAN POWER COMPANY)	
for a renewable energy cost reconciliation proceeding)	Case No. U-18083
for the 12-month period ended December 31, 2015.)	
_____)	

At the November 22, 2016 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On July 13, 2016, Indiana Michigan Power Company (I&M) filed an application, with supporting testimony and exhibits, requesting authority to reconcile the expenses and revenues associated with its renewable energy plan (REP) for the 12-month period ended December 31, 2015. I&M also sought approval to adjust its REP surcharge rates to the maximum level allowed under Section 45(2) of 2008 PA 295 (Act 295).

A prehearing conference was held on September 8, 2016, before Administrative Law Judge Sharon L. Feldman.¹ I&M and the Commission Staff participated in the proceedings. Subsequently, the parties submitted a settlement agreement resolving all issues in the case.

¹ The settlement agreement incorrectly states that the prehearing conference was conducted by Administrative Law Judge Dennis W. Mack.

According to the terms of the settlement agreement, attached to this order as Exhibit A, the parties agree that I&M has complied with the renewable energy requirements of Act 295 for 2015. The parties further agree that I&M's 2015 reconciliation results in a regulatory asset of \$882,631, including carrying charges, and that I&M's REP reconciliation for 2015 should be approved. The parties agree that I&M's REP surcharge rates should be adjusted to the maximum level allowed under Section 45(2) of Act 295 in an effort to produce revenue exceeding I&M's cumulative cost of compliance by December 31, 2017, based on I&M's December 31, 2015 regulatory asset balance and the updated forecasted cost of compliance for the 2016-2017 REP as approved by the Commission in Case No. U-17794.

The parties further agree that the transfer price schedule in Attachment 2 to the settlement agreement, should be approved for projects filed for approval after the date of this order until superseded by a new transfer price schedule.

The Commission finds that the settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. Indiana Michigan Power Company's application for authority to reconcile its renewable energy plan for the 12-month period ended December 31, 2015, is approved.
- C. Indiana Michigan Power Company is authorized to implement revised surcharges set forth in Attachment 1 to the settlement agreement, effective for bills rendered beginning with the December 2016 billing cycle.

D. The transfer price schedule set forth in Attachment 2 to the settlement agreement, is approved for projects filed for approval after the date of this order until superseded by a new transfer price schedule.

E. Within ten days of the date of this order, Indiana Michigan Power Company shall file a tariff sheet substantially similar to that contained in Attachment 1 to the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so by the filing of a claim of appeal in the Michigan Court of Appeals within 30 days of the issuance of this order, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscdockets@michigan.gov and to the Michigan Department of the Attorney General - Public Service Division at pungp1@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of November 22, 2016.

Kavita Kale, Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of INDIANA
MICHIGAN POWER COMPANY for a
Renewable Energy Cost Reconciliation
proceeding for the 12-month period ended
December 31, 2015.

Case No. U-18083

SETTLEMENT AGREEMENT

Pursuant to MCL 24.278 and Rule 431 of the Rules of Practice and Procedure before the Michigan Public Service Commission (“Commission”), R 792.10431, Indiana Michigan Power Company (“I&M”) and the Commission Staff (“Staff”) agree and stipulate as follows:

1. On July 13, 2016, I&M filed its application, testimony and exhibits in Case No. U-18083 requesting Commission approval to reconcile its renewable energy plan surcharge revenues and incremental costs of compliance for the 12-month period ended December 31, 2015.

2. I&M also sought approval to adjust its Renewable Energy Surcharge (“RES”) rates to the maximum level allowed per Section 45(2) of 2008 PA 295 in an effort to produce revenue exceeding I&M’s cumulative cost of REP compliance by December 31, 2017, based on I&M’s December 31, 2015 regulatory asset balance and the updated forecasted cost of compliance associated with the 2016/2017 RE Plan that was approved by the Commission in Case No. U-17794. I&M requested to implement revised RES rates effective for bills rendered beginning with the first billing cycle of January 2017 or the first billing cycle the month following a Commission Order.

3. In its direct case, I&M represented that, for the 12-month period ending December 31, 2015, its renewable energy plan, as approved by the Commission in Case No. U-17794, resulted in a regulatory asset of \$882,631, including carrying charges.

4. On August 3, 2016, the Commission's Executive Secretary issued the Notice of Hearing in this proceeding directing I&M to mail a copy of the Notice of Hearing to all cities, incorporated villages, townships and counties in its Michigan electric service area, and to interveners in Case Nos. U-17805 and U-17794. Furthermore, I&M was directed to publish the Notice of Hearing in daily newspapers of general circulation throughout its Michigan electric service area. I&M electronically filed its affidavit of mailing and proof of publication.

5. On September 8, 2016, Administrative Law Judge Dennis W. Mack conducted the prehearing conference. I&M and Staff attended the prehearing conference. There were no interveners.

6. Subsequently, the parties participated in settlement discussions and agree as follows:

- a. The Commission should find that I&M has complied with the renewable energy requirements of 2008 PA 295 ("Act 295") for the 2015 calendar year.
- b. The Commission should approve as reasonable and prudent I&M's reconciliation of REP surcharge revenues and actual cost of compliance for the 12-month period ending December 31, 2015 resulting in a regulatory asset, including carrying charges, of \$882,631, as of December 31, 2015.
- c. The Commission should approve the adjustment of I&M's RES rates to the maximum level allowed per Section 45(2) of 2008 PA 295 in an effort

to produce revenue exceeding I&M's cumulative cost of REP compliance by December 31, 2017, based on I&M's December 31, 2015 regulatory asset balance and the updated forecasted cost of compliance for the 2016/2017 REP Plan that was approved by the Commission in Case No. U-17794 (Attachment 1).

- d. I&M shall implement revised RES rates effective for bills rendered beginning with the first billing cycle of January 2017 or the first billing cycle the month following a Commission Order.
- e. The revised transfer price schedule, attached as Attachment 2, is approved for projects filed for approval after the date of this order until superseded by a new transfer price schedule.

7. All the parties are of the opinion that this Settlement Agreement is reasonable, in the public interest, and will aid in the expeditious conclusion of this case.

8. This Settlement Agreement is entered into for the sole and express purpose of reaching a compromise among the parties and resolves issues expressly addressed in this case only. All offers of settlement and discussions relating to this settlement are considered privileged under Michigan Rules of Evidence, Rule 408. If the Commission approves this Settlement Agreement without modification, neither the parties to the Settlement Agreement nor the Commission shall make any reference to, or use this Settlement Agreement or the order approving it, as a reason, authority, rationale or example for taking any action or position or making any subsequent decision in any other case or proceeding; however, such reference may be made to enforce or implement the provisions of this Settlement Agreement and the order approving it.

9. The parties further agree that any order approving this Settlement Agreement shall not establish precedent for future proceedings. This Settlement Agreement is based on the facts and circumstances of this case and is intended as the final disposition of Case No. U-18083. If the Commission approves this Settlement Agreement, without modification, the undersigned parties agree not to appeal, challenge or otherwise contest the Commission order approving this Settlement Agreement.

10. This Settlement Agreement is not severable. Each provision of this Settlement Agreement is dependent upon all other provisions of this Settlement Agreement. Failure to comply with any provision of this Settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of this Settlement Agreement, this Settlement Agreement shall be deemed to be withdrawn, shall not constitute any part of the record in this proceeding or be used for any other purpose, and shall not operate to prejudice the pre-negotiation positions of any party.

11. All signatories agree to waive Section 81 of the Administrative Procedures Act of 1969, as amended, MCL 24.281, as it applies to issues in this proceeding, if the Commission issues an order approving this settlement agreement without modification.

Dated: November 3, 2016

INDIANA MICHIGAN POWER COMPANY

Digitally signed by: Richard J. Aaron
DN: CN = Richard J. Aaron email = raaron@dykema.com C = US O = Dykema Gossett PLLC
Date: 2016.11.03 09:51:39 -05'00'

By: **Richard J. Aaron**

Richard J. Aaron (P35605)
Dykema Gossett PLLC
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MICHIGAN PUBLIC SERVICE
COMMISSION STAFF

Dated: November 3, 2016

By: **Spencer
Sattler**

Digitally signed by Spencer Sattler
DN: cn=Spencer Sattler, o=Michigan
Department of Attorney General, ou=Public
Service Division,
email=sattlers@michigan.gov, c=US
Date: 2016.11.03 11:18:06 -04'00'

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**M.P.S.C. 15- ELECTRIC
INDIANA MICHIGAN POWER COMPANY
STATE OF MICHIGAN
(REP CASE U-18083)**

**THIRD REVISED SHEET NO. D-115.00
CANCELS SECOND REVISED SHEET NO. D-115.00**

RENEWABLE ENERGY SURCHARGE

All customer bills subject to the provisions of this surcharge, including any bills rendered under special contract, shall be adjusted by the Renewable Energy Surcharge adjustment as follows:

Tariff	\$ / Month
RS, RS-TOD, RS-OPES/PEV, RS-SC, and RS-TOD2	3.00
SGS, SGS-TOD2, MGS-Sec, MGS-TOD, WSS-Sec, LGS-Sec, MS, EHG, EHS, IS, SLS, SLC, ECLS, and SLCM	16.58
MGS-Pri, MGS-Sub, LGS-Pri, LGS-Sub, LP, WSS-Pri, WSS-Sub, CS-IRP, and RTP	187.50

**ISSUED
BY PAUL CHODAK III
PRESIDENT
FORT WAYNE, INDIANA**

**EFFECTIVE FOR BILLS RENDERED
BEGINNING WITH THE BILLING MONTH OF
JANUARY 2017**

**ISSUED UNDER AUTHORITY OF THE
MICHIGAN PUBLIC SERVICE COMMISSION
DATED _____
IN CASE NO. U-18083**

2016 MPSC Staff Transfer Price Schedule

Background

The Commission's December 20, 2011 Commission Order in Case No. U-16582 directed the Michigan Public Service Commission Staff (Staff) to convene a technical conference with the following objectives:

- Address the appropriate inputs for developing transfer prices;
- Address the method for developing transfer prices; and
- Determine adequate measures to protect confidential information that recognizes the rights of the other parties to examine and test the evidence that may be used to develop transfer prices.

Staff convened the first technical conference on January 18, 2012 with DTE Electric Company (Formerly known as Detroit Edison Company), Michigan Environmental Council (MEC) and the Environmental Law and Policy Center (ELPC) to discuss inputs and the methodology for developing transfer prices and adequate measures to protect confidential information that allows for intervening parties to test the transfer price calculation methodology in the course of a contested case hearing. The parties agreed to work on solutions to the issues and provide the information electronically on February 15, 2012 and meet again on February 21 to discuss what each party had filed.

At the February 21, 2012 technical conference, Staff and MEC described the proposed transfer price calculation methodologies. The Attorney General also participated in the meeting. Additionally, processes to disclose necessary confidential information to parties yet adequately protect the data were discussed.

Staff convened a larger technical conference on May 30, 2012 with all Companies and interveners that participated in cases with transfer price issues. The goal of this larger technical conference was to try to reach consensus on a procedure to develop and update the transfer price schedules on a yearly basis. The parties attending the technical conferences provided discussion and feedback related to inputs and the methodology for developing transfer prices and measures to protect confidential information that allows for intervening parties to adequately test the transfer price calculation methodology in the course of a contested case.

Methodology

Staff's proposed methodology is to set yearly transfer price schedules that will cover the remaining time frame of the renewable energy planning period (2029) on a going forward basis. The transfer prices resulting from this methodology will be used by electric providers¹ as a point of reference.

¹ Currently Consumers Energy Company, DTE Electric Company, Indiana Michigan Power Company and Wisconsin Electric Power Company utilize transfer price schedules.

Staff believes transfer price schedules should be representative of what a Michigan electric provider would pay had it obtained the energy and capacity (the non-renewable market price component) through a long term power purchase agreement for traditional fossil fuel electric generation. MCL460.1047 explains that when setting the transfer price, the Commission shall consider factors including, but not limited to, projected capacity, energy, maintenance, and operating costs, information filed under Section 6j of 1939 PA 3 (MCL 460.6j), and wholesale market data, including but not limited to, locational marginal pricing. To best determine the value of the non-renewable component of PA 295 of 2008 compliant generation, Staff believes that for purposes of developing the MPSC Staff Transfer Price Schedule that the levelized cost of a new natural gas combined cycle (NGCC) plant would likely be analogous to the market price mentioned above. Starting with the U.S. Energy Information Administration's (EIA) levelized cost estimate for an advanced natural gas combined cycle facility, Staff built a trend line from the cost estimate to effectively follow the value of energy, capacity and inflation through 2029 that represents the cost of a new NGCC plant in each year.

To determine the slope of the trend line, Staff utilized data and projections provided by the EIA and the IHS Global Insight. Staff utilized fuel cost forecasts and producer price indices including utility natural gas, employment cost, industrial commodities, metals and metal products, and machinery and equipment. Consistent with common industry practice, Staff proposes that by analyzing projected construction cost components and fuel price forecasts throughout the plan period, Staff was able to calculate a proxy for market energy prices, capacity prices, ancillary benefits and the effect of inflation through the 2029 plan period.

Staff believes that, given current market conditions, the market will converge towards the price of a new NGCC plant every year. In an effort to accurately and effectively assign value to the non-renewable component of renewable energy generation and capacity, Staff developed this transfer price methodology so that it will result in a proxy for how a long term power purchase agreement would be structured. This methodology is the basis for the calculation of the MPSC Staff Transfer Price Schedules.

Data Protection

The Commission specified that a purpose of the technical conferences was to discuss adequate measures to protect confidential information but allows for intervening parties to adequately test the transfer price calculation methodology in the course of a contested case hearing. Staff has received permission from IHS Global Insight to allow the parties to a contested case to visit the MPSC offices and review the producer price indices used to create the trend line for Staff's transfer price schedule.

Timing

Staff will issue an updated MPSC Staff Transfer Price Schedule each spring in docket number U-15800. This is done to allow the electric providers time to incorporate the

MPSC Staff Transfer Price Schedule into future renewable energy case filings for the calculation of the incremental cost of compliance.

In each contested Renewable Cost Reconciliation case, the electric provider will request a transfer price schedule be established and file its proposed transfer price schedule. Additionally, Staff will file the MPSC Staff Transfer Price Schedule. .

Upon Michigan Public Service Commission approval of a transfer price schedule in the Renewable Cost Reconciliation, the transfer price schedule will be in effect until a new transfer price schedule is established in a subsequent proceeding. The most recently approved transfer price schedule will apply to all new renewable energy contracts and projects approved by the Commission. The most recently approved transfer price schedule will have no impact on contracts or projects that have already had transfer price schedules assigned.

2016 MPSC Staff Transfer Price Schedule

Staff presents its 2016 MPSC Staff Transfer Price Schedule. Using the same methodology as its 2012 – 2015 MPSC Staff Transfer Price Schedules,² Staff updated three components. These updates include:

- Updated Global Insight data. (This caused an overall increase in the transfer prices compared to the 2015 MPSC Staff Transfer Price Schedule)
- Utilized Energy Information Administration Annual Energy Outlook 2015 Natural Gas price projection. (This is the same natural gas forecast as the 2015 Staff Transfer Price. EIA does not intend to release an updated forecast until June of 2016.)
- Updated overnight construction cost used for the AFUDC calculation and adjusted the Natural Gas price projections to 2016 dollars using a 2% inflation rate. (This caused an overall increase in the transfer prices compared to the 2015 MPSC Staff Transfer Price Schedule)

The 2016 Staff Transfer Price Schedule updates resulted in an overall average increase in transfer prices when compared to the 2015 Staff Transfer Price Schedule.

² Due to the timing of the technical conferences, the 2012 MPSC Staff Transfer Price Schedule was not filed in this docket, but only filed in Renewable Cost Reconciliation Cases No: U-16662, U-16655 and U-16656 .

	2015 Transfer Price Schedule	2016 Transfer Price Schedule
2016	\$69.40	\$71.80
2017	\$72.52	\$74.62
2018	\$75.07	\$77.96
2019	\$77.44	\$80.64
2020	\$79.37	\$82.95
2021	\$80.50	\$85.75
2022	\$81.64	\$88.75
2023	\$83.50	\$89.94
2024	\$84.72	\$91.63
2025	\$86.71	\$93.48
2026	\$88.28	\$94.56
2027	\$90.02	\$96.55
2028	\$92.68	\$98.16
2029	\$94.55	\$99.88

Levelized Cost Calculation

	NGCC	notes
Capacity MW	400	MW
Loading Factor	71.00%	The % of time the unit would be dispatched if available
Equivalent Avail.	87.00%	The % of time the unit would be available for dispatch. A combination of FOR and planned outages
Capacity Factor	61.77%	(Loading Factor)(Equivalent Availability)
Heat Rate Btu/kWh	6719	BTU/kWh
Fuel Cost \$/MMBtu	\$5.28	\$ per Million BTU
Total Cost MM no AFUDC	\$469.266	MM
AFUDC	\$64.17	MM
Total Cost MM	\$533.432	MM
Fixed Charge Rate	12.38%	% used to calculate fixed cost recovery component
Fixed O&M \$/kW	\$14.62	\$/kW
Annual Lev. Fixed Cost MM	\$66.04	MM
Total Annual Lev. Fixed Cost MM	\$71.89	MM
Fixed Cost \$/kWh	0.0332	\$/kWh
Fuel Cost \$/kWh	0.0355	\$/kWh
Var. O&M \$/kWh	0.0031	\$/kWh
Total Var. Cost	0.0386	\$/kWh
Total Cost \$/kWh	0.07180	\$/kWh

Overnight Cost (MM) 443.008006

AFUDC		Total Overnight Cost (MM) in 2016 \$	Inflation Rate	Cumulative	Finance Rate
Year	GCC	\$443.008	2%		6.56%
1	5%	22	22.59	22.59	1.48
2	30%	133	138.27	160.87	10.55
3	35%	155	164.54	325.41	21.35
4	30%	133	143.86	469.27	30.78
	1	443	469.266		64.17

Fixed price cost escalation: Fixed portion of levelized cost is multiplied by 3 producer price indices with 2016 as base year (2016=1)

Variable cost price escalation: Variable portion of levelized cost is multiplied by Nat Gas price forecast index, with 2016 as a base year (i.e. 2016=1).

FIXED **\$33.21**

	Producer Price Index--Intermediate Materials	Producer Price Index--Industrial Commodities	Producer Price Index--Machinery & Equipment	Producer Price Index--Metals & Metal Products
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-

VARIABLE **\$38.58**

	Producer Price Index--Utility Natural	Employment Cost Index--Total Private Compensation
Average		
\$33.21	-	-
\$34.01	-	-
\$35.19	-	-
\$36.15	-	-
\$37.01	-	-
\$37.77	-	-
\$38.49	-	-
\$39.07	-	-
\$39.59	-	-
\$40.07	-	-
\$40.48	-	-
\$40.92	-	-
\$41.34	-	-
\$41.77	-	-

Weighted Average (Utility Nat Gas 70% Employment Cost 30%)		2015 Transfer Price Schedule	2016 Transfer Price Schedule
\$38.58	2016	\$69.40	\$71.80
\$40.61	2017	\$72.52	\$74.62
\$42.77	2018	\$75.07	\$77.96
\$44.49	2019	\$77.44	\$80.64
\$45.94	2020	\$79.37	\$82.95
\$47.97	2021	\$80.50	\$85.75
\$50.26	2022	\$81.64	\$88.75
\$50.87	2023	\$83.50	\$89.94
\$52.04	2024	\$84.72	\$91.63
\$53.41	2025	\$86.71	\$93.48
\$54.07	2026	\$88.28	\$94.56
\$55.63	2027	\$90.02	\$96.55
\$56.82	2028	\$92.68	\$98.16
\$58.11	2029	\$94.55	\$99.88

Source: EIA Annual Energy Outlook 2015

Period (Used for Levelized Calculation)		Henry Hub Using 2015 Annual Energy Outlook 2013	Henry Hub Using 2015 Annual Energy Outlook 2016 Dollars
		Dollars	
2016	1	3.698147	\$3.92
2017	2	3.804356	\$4.04
2018	3	4.211246	\$4.47
2019	4	4.551641	\$4.83
2020	5	4.880675	\$5.18
2021	6	5.018452	\$5.33
2022	7	5.089608	\$5.40
2023	8	5.247193	\$5.57
2024	9	5.348577	\$5.68
2025	10	5.457007	\$5.79
2026	11	5.66631	\$6.01
2027	12	5.665049	\$6.01
2028	13	5.667718	\$6.01
2029	14	5.710536	\$6.06
2030	15	5.68988	\$6.04
2031	16	5.91253	\$6.27
2032	17	6.093539	\$6.47
2033	18	6.271903	\$6.66
2034	19	6.451879	\$6.85
2035	20	6.599801	\$7.00
Discount Rate		8.98%	
Net Present Value Fuel		\$45.48	\$48.27
Levelized Fuel Price		\$4.98	\$5.28